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C O N F I D E N T I A L SECTION 01 OF 02 VIENNA 000307

SIPDIS

TREASURY FOR FTAT, OCC/SIEGEL, AND OASIA/ICB/ATUKORALA  
TREASURY PASS FEDERAL RESERVE, FINCEN, AND SEC/JACOBS

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TAGS: [ECIN](#) [ECON](#) [EFIN](#) [EUN](#) [PREL](#) [AU](#)  
SUBJECT: AUSTRIA ON FINANCIAL CRISIS IN CENTRAL/EASTERN  
EUROPE

REF: STATE 23758

Classified By: Charge d'Affaires Dean Yap. Reasons: 1.5 b and d.

11. (C) SUMMARY: Austria's Finance Ministry welcomed reftel demarche, painting a more nuanced picture of the current crisis than the media portrayal. The GoA supports U.S. initiatives to expand IMF/MDB engagement and sees better coordination now between the EU, IMF, and MDBs (e.g. in the case of Romania) than at the start of the crisis. The GoA understands that Europe must take the lead in responding to its new member states and accession /candidate countries (such as Serbia), but welcomes a strong US role in marshalling support for "geopolitically relevant" countries in the European neighborhood -- most of all, Ukraine. END SUMMARY.

12. (SBU) On March 13, Charge d'Affaires delivered reftel demarche to Thomas Wieser, Director-General of Austria's Ministry of Finance and a longtime expert in international financial issues.

IMF: Austria on Board for Expanding NAB

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13. (C) Wieser expressed support for the USG's initiative to expand the IMF's New Arrangements to Borrow (NAB) but said Austria has heard conflicting figures over the past week (first \$500 billion, then \$750 billion). Wieser noted that in any case, \$500 billion won't be enough. The GoA "strongly supports NAB contributions by current-account surplus countries, especially those who haven't contributed yet" -- i.e., China. Austria will do its part within the EU's overall contribution to the NAB (EU members haven't divided up their burden yet); additionally, the GoA will "plus up" rescue packages for some countries (hinting at European cases like Romania and Serbia).

MDBs: Need to Be Creative, Aggressive

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14. (SBU) GoA rep agreed with the USG position that multilateral development banks/MDBs such as the World Bank should use their balance sheets more creatively to fight the credit crunch. Wieser said the GoA would welcome USG support for the IFC's recent initiatives to support trade financing (a victim of the crisis) and to invest in bank restructuring in emerging markets. Wieser hailed Japan for significantly expanding its contributions to the ADB and IFC. Wieser noted that Austria is the third largest bilateral donor to IFC.

Improved EU Crisis Coordination in Central/Eastern Europe

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15. (C) Wieser disputed media reports that Austria had

failed to garner support for an EU "rescue package" to unstable financial sectors in Central/Eastern Europe -- such a package was never on the table, he argued. Rather, the GoA had seen gaps in the international community's disjointed response to Hungary (early in the crisis) leading it to advocate better "coordination" among the EU, IMF, MDBs (EBRD and EIB), and bilateral donors -- in other words, a flexible "toolbox" to be used on a case-by-case basis. Wieser opined that coordination is much better now, highlighting the upcoming Romania package as an example. Asked about German resistance to bailouts, Wieser acknowledged friction but implied this was primarily election-year grandstanding by some German politicians. Assistance must be forthcoming in the end, so German leaders run the risk of acting like the British who (often) "loudly oppose a deal, then come on board too late to influence the details."

16. (C) Wieser outlined three set of crisis countries in Europe:

a) NEW MEMBER STATES (e.g. Hungary, Romania, Latvia) - the EU will take the lead, with help from the EIB, EBRD, and where necessary the IMF in a truly consolidated approach. Certain European states, including Austria, will find bilateral funds to augment multilateral aid. Since the EU already gives significant resources to the new member states, it can accelerate disbursements to heighten the medium-term impact. A few new member states (Greece, Slovakia) are trying to build "fences" around bank capital in local subsidiaries, Wieser noted, an unhelpful development.

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b) ACCESSION /CANDIDATE STATES (e.g. Serbia) - again a European responsibility with the same set of lead institutions. Wieser said the problem is very limited EU budgetary resources for non-members -- several hundred million Euros for the whole group. There is frankly not enough money on the table yet for non-EU members and Austria would welcome USG assistance/engagement, understanding that Europe has to bear the brunt.

c) "EUROPEAN NEIGHBORHOOD" - the GoA sees a U.S. role in "geopolitically relevant countries" like Ukraine, which Wieser called "a total disaster" but not without well-meaning reformers. Austria fully recognizes Ukraine's geopolitical significance and hopes the USG can keep Ukraine on the international agenda and will continue engaging sensible moderates in that country. "We are close to losing Ukraine again" to Russia, Wieser fretted.

COMMENT

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17. (C) The GoA's high-profile initiative to rally financial support for Central/Eastern Europe came off as amateurish: well-intended but poorly prepared and miserably presented. During the critical February ECOFIN, for instance, a newly minted Austrian finance state secretary had to square off against German FinMin Steinbrueck -- because Austria's FinMin/Deputy Chancellor Josef Proell stayed home to attend a cabinet meeting. It has not helped the Austrian cause that its efforts are seen as purely in the interests. The GoA seems to have lowered its sights and is now focusing on better crisis management, on a country-by-country basis.

18. (C) Austrian decision-makers are highly concerned about Ukraine and other emerging markets in Central/Eastern Europe -- since Austrian banks have so much at stake (they entered the crisis with almost \$300 billion in assets in the region). In other words, the USG and GoA have strongly overlapping interests on this issue. If we can identify useful channels for cooperation, the

GoA could become a committed and helpful partner in the region.  
YAP